LII HEN INDUSTRIES BERHAD
32nd Annual General Meeting

(199401015681/301361-U)

Question & Answer Session

Questions from Minority Shareholders Watch Group (“MSWG”)

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OPERATIONAL & FINANCIAL MATTERS

1. LHIB's Gross profit margin fell to 6.4% in 2025 from 14.7% in 2024, with a RM5.5 million inventory write-down (Pages 17-18 of the Annual Report (AR) 2025).

Impaired trade receivables rose to RM9.35 million, about 21% of the gross book (Note 12, Pages 119-120 of AR 2025).

(a) Has any of the RM9.35 million impaired balance been recovered? What ongoing recovery actions are being taken to address this?

Management's Response

The Group continuously monitors the recoverability of all outstanding trade receivables. As of the date of this AGM, approximately RM500,000 of the impaired receivables has been recovered subsequent to the financial year end. The Group remains committed to its collection efforts through regular follow-ups, payment restructuring arrangements, where appropriate, and legal actions against defaulting customers.

Management's Response (Cont'd)

At the same time, the Group has taken pertinent measures to strengthen its credit control procedures, including enhancing customer credit assessments, maintaining tighter credit limits, closer monitoring of customer payment trends, and placing shipments on hold when indicators of potential debt delinquency are seen - all these with the view of mitigating future impairment risks, whilst generating economic returns from sales. Any increase in customer credit limits is subject to approval by the Board. The Group also has options to use factoring arrangements for higher-risk accounts and may require upfront deposits where a customer's credit history or financial standing cannot be ascertained.

(b) With RM8.88 million of inventory carried at net realisable value after the RM5.5 million write-down (Note 11, Page 118 of AR 2025), is further write-down expected in 2026?

Management's Response

The inventory write-down recognised in FY2025 was primarily attributable to weaker demand conditions, slower inventory turnover due to lower production level, and a reassessment of inventory recoverability. The Group has adopted an inventory provisioning policy for slow-moving stock aged more than one year, and the write-down exercise is an ongoing process that is continuously monitored.

Management's Response (Cont'd)

This practice aligns with the requirements of MFRS 102 which governs the accounting treatment of inventories, requiring them to be measured at the lower of cost or net realisable value. Inventory valuation considers the effects of the changes in market demand, customer ordering patterns, and product specifications, and the carrying amount of inventory will continue to be reviewed regularly in accordance with the Group's accounting policy and MFRS 102.

(c) After recording about RM16 million pre-tax loss in 2025 (Page 88 of AR 2025), what revenue level returns the Group to breakeven in 2026? Which costs are being cut to support this, if any?

Management's Response

The Group's breakeven level depends not only on revenue but also on product mix, factory utilisation, operating efficiency, and foreign exchange movements. Based on current operating assumptions, Management expects a notable improvement in revenue and utilisation rates will be required for the Group to return to profitability.

Management's Response (Cont'd)

The Group has undertaken various cost rationalisation initiatives, including improving production efficiency, reducing material wastage, optimising manpower deployment, exercising tighter control over discretionary operating expenses, with a continued focus on restoring margins while maintaining operational capability to support future growth. During the year, we reduced our workforce by 460 employees as part of ongoing initiatives to enhance operational efficiency and optimise workforce deployment. The reduction in headcount alleviated the impact of the increase in minimum wages. Furthermore, improvements in production efficiency reduced overtime expenses, resulting in annual savings of approximately RM3 million.

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2. The US accounts for 92% of revenue, with a 19% tariff from August 2025 and a temporary 10% global tariff from February 2026 (Pages 14, 16, and 23 of AR 2025).

(a) What portion of the tariff cost is the Group absorbing? How have orders moved since August 2025?

Management's Response

Prior to August 2025, the Group absorbed approximately 3% to 5% of the tariff impact through the provision of trade discounts. Following the imposition of a 19% tariff in August 2025, the Group discontinued sharing the tariff cost. In addition, price increases were implemented in April 2026 in response to the adverse movement of USD against RM, as well as geopolitical tensions in the Middle East, which led to higher fuel prices and increased material costs.

Management's Response (Cont'd)

Demand remains sluggish in the core market. In mitigation, the Group has been collaborating closely with key customers to manage demand planning and maintain business continuity. Although prevailing operating environment poses a challenge, the Group has not experienced any material loss of key customers. In addition, the Group has re-engaged previous smaller customers and reduced minimum order quantities to secure additional revenue.

(b) What non-US revenue share is targeted for 2026, if any? How many new customers support it?

Management's Response

The Group is steadfast in diversifying its customer base and reducing reliance on any single market over the longer term. In FY2026, Management aims to increase the contribution from non-US markets through both existing and newly developed customer relationships.

The Group is actively pursuing opportunities in ASEAN and Middle East and has been engaging with potential customers across different regions. While diversification efforts are progressing, the US market is expected to remain the Group's primary revenue contributor in the near term.

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3. A new RM8.6 million mandate is sought to buy furniture hardware and other related products from a related party connected to a major shareholder (Page 5 of the Circular dated 29 April 2026).

(a) How was the RM8.6 million estimate derived?

Management's Response

The proposed RM8.6 million mandate was determined based on historical transactional values, projected production requirements, anticipated customer orders, and expected business activity during the validity period of the mandate. The estimate also incorporates a reasonable margin to accommodate fluctuations in demand and operational requirements.

Management’s Response (Cont’d)

We wish to reiterate that even if the mandate is approved, Management will still exercise due care and diligence before spending, taking into consideration the market trends and prevailing demand. One of the key reasons for the mandate is to avoid any administrative hassles that may come about, for example, the need for shareholders’ approval at Extraordinary General Meetings in compliance with Bursa’s Listing Requirements, if such transactions are needed in the course of business.

(b) What price comparisons support the pricing? How will the Audit Committee's stated quarterly review (Section 2.4 of the Circular) be applied to these purchases?

Management's Response

All recurrent related party transactions are conducted on terms that are not more favourable to the related party than those generally available to the public and are undertaken on an "arm's-length" basis. Price competitiveness is assessed through comparisons with quotations obtained from unrelated third-party suppliers, prevailing market prices, usual business practices, and other relevant benchmarks, where available.

Management’s Response (Cont’d)

The Audit Committee conducts quarterly reviews of the transactions to ensure compliance with the approved mandate and Bursa’s Listing Requirements, adherence to established procurement procedures and consistency with the “arm's-length” principles. Any material findings are reported to the Board for further consideration and action, as needed.

4. Revenue from all three major customers fell sharply in 2025, with Customer A dropping from RM101.2 million in 2024 to RM54.4 million in 2025, Customer B from RM80.3 million in 2024 to RM57.4 million in 2025, and Customer C from RM80.1 million in 2024 to RM68.3 million in 2025 (Note 33, Page 167 of AR 2025).

It is also noted that for "Other product categories", panel office products declined sharply by 34% (Page 18 of AR 2025).

(a) What is the order outlook from these three major customers for 2026? Are volumes expected to recover?

Management's Response

The Group continues to maintain close working relationships with its major customers and actively engages in their product development and sourcing programmes. While customers are cautious in their orders due to prevailing economic uncertainties and trade-related developments, Management has observed signs of stabilisation in the ordering patterns. Nevertheless, the pace of recovery will depend on the broader economic conditions and customer purchasing trends in the Group's key markets. The Group will continue prioritising operational efficiency, exploring cost pass-through strategies, diversifying its customer base to ASEAN and the Middle East to reduce dependency on key US buyers, and enhancing product offerings to sustain competitiveness in the US market.

(b) What drove the 34% fall in panel office products? Is it cyclical or structural?

Management's Response

The decline in panel office products was primarily attributable to the discontinuation of one of the product models by a key customer.

Management currently views the decline as largely cyclical in nature, reflecting the broader slowdown in demand experienced by the industry. However, the Group continues to monitor changes in workplace trends and customer preferences to ensure that its product offerings remain relevant and aligned with evolving market requirements.